

Message Text

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70

ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

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IO-11 /106 W

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R 281628Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6016

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

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AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L BONN 01494

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: IFO INSTITUTE UNPUBLISHED ECONOMIC OUTLOOK
FOR 1976

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REF: BONN 19460 (1975)

1. IN A RECENT CALL ON ARTHUR KRUMPER, DIRECTOR OF THE ECONOMIC ANALYSIS AND POLICY DEPARTMENT OF THE IFO INSTITUTE IN MUNICH, WE ACQUIRED HIS PERSONAL VIEW OF THE 1976 ECONOMIC OUTLOOK WHICH HE HAD JUST DEVELOPED AND WHICH MAY, OR MAY NOT, SUBSEQUENTLY BE PUBLISHED. HE SEES GROWTH OF REAL GNP OF 3.8 PERCENT, WHICH IS EQUAL TO THE JOINT FORECAST OF THE FIVE ECONOMIC INSTITUTES MADE LAST OCTOBER, BUT 0.7 PERCENTAGE POINTS BELOW THE JUST ISSUED FRG ANNUAL ECONOMIC REPORT FORECAST AND THE NOVEMBER COUNCIL OF ECONOMIC EXPERTS REPORT. THE MAJOR DIFFERENCE FROM THE LATTER TWO WOULD SEEM TO LIE IN HIS SUBSTANTIALLY WEAKER INVESTMENT ASSUMPTION. HE BASES THIS LOWER ESTIMATE ON AN EXTENSIVE IFO SURVEY OF INDUSTRIAL INVESTMENT PLANS MADE LAST NOVEMBER, BUT WHICH HE CONSIDERS STILL VALID (SEE REFTEL).

2. KRUMPER ENVISAGES 1976 GROWTH RATES OF THE VARIOUS GNP COMPONENTS IN REAL TERMS AS BEING: PRIVATE CONSUMPTION, 2.7 PERCENT; PUBLIC CONSUMPTION, 1.7 PERCENT; INVESTMENT IN MACHINERY AND EQUIPMENT, 3.0 PERCENT; AND INVESTMENT IN CONSTRUCTION, 0.0 PERCENT. IN 1962 PRICES, THE INVENTORY CHANGE FORESEEN IS PLUS DM 8.0 AND THE NET FOREIGN BALANCE, DM 11.5 BILLION. THIS GROWTH STRUCTURE VARIES SLIGHTLY FROM THE FIVE INSTITUTES' EARLIER FORECAST IN THAT PRIVATE CONSUMPTION IS UP A BIT HIGHER (NEARER THE GOVERNMENT FORECAST), BUT THE GAINS ON THE INVENTORY AND NET FOREIGN BALANCE SIDES ARE MODIFIED TO SLIGHTLY LOWER LEVELS (PLACING THEM CLOSER TO THE GOVERNMENT VIEW).

3. INTERESTING WAS KRUMPER'S VIEW OF THE QUARTER-BY-QUARTER DEVELOPMENT IN SEASONALLY ADJUSTED TERMS, WHICH HE SEEMS CLEARLY NOT LIKELY TO PUBLISH. AT ANNUAL RATES, FOLLOWING A STRONG FOURTH QUARTER 1975 GROWTH OF 8.4 PERCENT, THE PACE WILL ABATE TO A 1.2 PERCENT RATE IN THE FIRST QUARTER 1976, AND THEN PICK UP TO 5.6 PERCENT IN THE SECOND QUARTER. ANOTHER LET UP IN THE GROWTH RATE IN THE THIRD QUARTER TO 2.8 PERCENT, AND FINALLY A SPURT OF 6.8 PERCENT GROWTH IN THE FOURTH QUARTER IS

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SEEN BY THE IFO FORECASTER. NOTABLE IS THAT WHILE THERE IS A CERTAIN QUARTER-TO-QUARTER CHOPPINESS IN THE PERFORMANCE FORESEEN, THE SECOND HALF IS ON BALANCE SLIGHTLY STRONGER THAN THE FIRST. QUARTERLY FORECASTS IN SEASONALLY ADJUSTED TERMS ARE, WITH THIS SINGLE EXCEPTION, VIRTUALLY UNHEARD OF IN GERMAN CIRCLES, SO THAT IT REPRESENTS A UNIQUE ANALYTICAL PERSPECTIVE. THESE DATA ARE, OF COURSE, HIGHLY ESTIMATIVE AND

APPROXIMATE, BUT THEY ARE THE RESULT OF SOME CAREFUL DELIBERATION BY ONE OF THE TOP-RANK ECONOMISTS (PLUS HIS STAFF) IN GERMANY SPECIALIZING IN SHORT TERM FORECASTS OF THE DOMESTIC ECONOMY.

4. THE IFO TEAM HAS ALSO DEVELOPED AN INDUSTRIAL PRODUCTION FORECAST FOR 1976 THAT REFLECTS 5.1 PERCENT GROWTH OVER 1975. THE YEAR BEGINS WITH AN INDEX NUMBER OF 106 AND ENDS WITH 109 (BUNDESBANK SERIES). THE SHAPE OF THE CURVE IS MORE OR LESS CONSISTENT WITH THAT FOR GNP GROWTH, I.E., CHOPPY. TOWARD MID YEAR THERE IS A PEAK TO 108 AND THEN A SLIGHT FALL OFF, WITH A STEEPER ASCENT IN THE LAST PART OF THE YEAR. THIS ALSO IS AN UNPUBLISHED EFFORT OF THE INSTITUTE.
HILLENBRAND

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